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U.S. Poverty and Income Security Policy in a Cross National Perspective: The War On Poverty - What Worked?

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"U.S. Poverty and Income Security Policy in a Cross National Perspective*"

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THE WAR ON POVERTY; WHAT WORKED?

The purpose of this paper is to provide comparative cross national evidence on the effect of income security policy on poverty in the U.S. and in seven other wealthy nations during the 1980's to address the question of how anti-poverty programs affect the poor. One way to address the issue of "what worked" in the War on Poverty is to compare the changing effect of U.S. policies on poverty in America over time. But another more illuminating comparison is that of the U.S. to other similar nations over time. Here we can look at not only the impacts of our policies, but also those of our allies, friends and neighbors who, it turns out, have very different and much more effective means of fighting poverty through public programs.

We begin with some evidence on poverty across nations and over time, and on the changing effectiveness of income security policy in these nations. The nations we investigate are the U.S.; Canada and Australia - two similarly large, predominately English speaking and geographically diverse nations; and five European nations: Sweden, and four European Community countries: Germany, Netherlands, France and the United Kingdom. These comparisons indicate that other nations have been far more effective in fighting poverty than has the U.S. in recent years. Next, we turn to some programmatic explanations for these differences - the types of effective tax and transfer policies used in these nations to combat poverty. Finally we turn to the programmatic lessons which these polices hold for the U.S.

I. Poverty Across Nations and Over Time

Thanks to the Luxembourg Income Study (LIS) database, which is more fully explained in the appendix to this paper, we are able to directly compare income and poverty status across

a wide range of nations. Essentially LIS is a large microdatabase which contains the same household income survey database that is used to measure poverty in the United States (Current Population Survey), and also similar surveys from 18 other nations. From LIS, we have selected a set of seven other nations which are very close to the U.S.A. in terms of economic status and data set structure for this comparison. For all of these but the United Kingdom, we have comparable data at two points in time: one around 1979-1981 and one around 1985-1987. The years are given by the availability of the other nations datasets. The U.S. data are for 1979 and for 1986.

Methodology. Every comparison of poverty involves two elements: income, or some other measure of economic well-being, and a poverty line to which income is compared. Our income definition is the same as that used by the U.S. Census Bureau, except that we add Food Stamps to money income and also take account of federal income and payroll taxes, including the effect of the Earned Income Tax Credit (EITC) on poverty status. The "official" poverty rates produced by the Bureau of the Census do not take account of Food Stamps or the EITC, thus neglecting the impact of two prime instruments in our national war against poverty. Our estimates take these program effects into account.

Our poverty definition uses the same differences for family size as those built into the U.S. poverty line, but sets the poverty line at 40 percent of median income in each country in each period. We chose the 40 percent line because of its closeness of the U.S. poverty line. In fact, the U.S. poverty line was 40.7 percent of median LIS income in 1986 and 42.1 percent in 1979. The result was a set of LIS-based poverty rates that were very close to the official U.S. poverty rates:

U.S. Poverty Rates from Two Sources:
Percent of Each Type of Units in Poverty

Category	1979 LIS	1979 Official U.S.	1986 LIS	1986 Official U.S.
All Persons	10.8	11.7	13.3	13.6
Elderly (65 or over)	12.9	15.2	10.9	12.4
Adult (18-64)	8.3	8.9	10.5	10.8
Children (17 or under)	14.7	16.4	20.4	20.5

Source of Official U.S. poverty rates: U.S. Department of Commerce, Bureau of the Census, 1991: Tables, 1,2

In fact, the LIS numbers yielded poverty rates that are a bit below the official figures, rates which include the effects of two of the programs which the U.S. government excludes from its figures. The estimates below come as close as possible then, to measuring the comparable level of poverty that one would find if we used the U.S. poverty line definition in each country.

Results. We begin by comparing poverty rates using the 40 percent figures across nations (Table 1) and over time (Table 2). In the mid to late 1980s the level of poverty in the U.S. was a clear outlier, compared to any other similar nation, including Canada - our closest neighbor. With the exception of childless adults, U.S. poverty rates were at least twice as high as those in all other nations studied. Particularly noticeable are the poverty rates for elderly and children, the two most vulnerable groups of citizens in all nations. Here we find U.S. poverty rates that are 3.8 to 2.8 times as high as those in other nations when measured by the same poverty

TABLE 1

COMPARABLE POVERTY RATES ACROSS SEVERAL NATIONS IN THE MID-1980S,[a] PERCENT OF PEOPLE BELOW 40 PERCENT OF ADJUSTED MEDIAN FAMILY INCOME AFTER TAX AND TRANSFER

	United States[b] 1986	Canada 1987	Australia 1985	Sweden 1987	Germany 1984	Netherlands 1987	France 1984	United Kingdom 1986	Average	Ratio of U.S. to Average
All People	13.3	7.0	6.7	4.3	2.8	3.4	4.5	5.2	5.9	2.3
All Elderly	10.9	2.2	4.0	0.7	3.8	0.0	0.7	1.0	2.9	3.8
All Adults	10.5	7.0	6.1	6.6	2.6	3.9	5.2	5.3	5.9	1.8
With Children	12.7	6.6	6.6	1.5	2.0	2.8	4.4	6.3	5.4	2.4
No Children	8.4	7.4	5.5	9.7	3.0	4.9	6.1	4.4	6.2	1.4
All Children	20.4	9.3	9.0	1.6	2.8	3.8	4.6	7.4	7.4	2.8

[a]Income includes all forms of cash income plus food stamps and similar benefits in other nations, minus federal income and payroll taxes. Income is adjusted using the U.S. Poverty Line Equivalence Scale.

[b]The ratio of the U.S. Poverty Line for a three person family to the adjusted median income was 40.7 percent in 1986. Thus, the 40 percent line is close to the official U.S. poverty line. See text for additional comments.

TABLE 2

CHANGES IN POVERTY RATES OVER TIME ACROSS SEVERAL NATIONS[a]
PERCENT OF PEOPLE BELOW 40 PERCENT ADJUSTED MEDIAN
FAMILY INCOME AFTER TAX AND TRANSFERS

	All People	All Elderly	All Adults	All Children
United States[b]				
1979	10.8	12.9	8.3	14.7
1986	13.3	10.9	10.5	20.4
change	2.5	-2.0	2.2	5.7
Canada				
1981	7.5	4.7	6.6	10.2
1987	7.0	2.2	7.0	9.3
change	-0.5	-2.5	0.4	-0.9
Australia				
1981	6.2	2.8	5.4	8.6
1985	6.7	4.0	6.1	9.0
change	0.5	1.2	0.7	0.4
Sweden				
1981	2.9	0.1	4.2	2.1
1987	4.3	0.7	6.6	1.6
change	1.4	0.6	2.4	-0.5
Germany				
1981	2.7	5.0	2.5	1.3
1984	2.8	3.8	2.6	2.8
change	0.1	-1.2	0.1	1.5
Netherlands				
1983	5.5	2.3	6.8	4.0
1987	3.4	0.0	3.9	3.8
change	-2.1	-2.3	-2.9	-0.2
France				
1979	4.6	2.3	5.1	4.7
1984	4.5	0.7	5.2	4.6
change	-0.1	-1.6	0.1	-0.1
United Kingdom				
1986	5.2	1.0	5.3	7.4
Average				
Wave 1	5.7	4.3	5.6	6.5
Wave 2[c]	5.9	2.9	5.9	7.4
change	0.2	-1.4	0.3	0.9

[a]Income includes all forms of cash income plus food stamps and similar benefits in other nations, minus federal income and payroll taxes. Income is adjusted using the U.S. Poverty Line Equivalence Scale.

[b]The ration of the U.S. Poverty Line for a three person family to the adjusted median income was 40.7 percent in 1986 and 42.1 percent in 1979, thus, the 40 percent line is close to the official U.S. poverty line. See text for additional comments.

[c]Wave 2 Average includes UK86.

definition. U.S. children have by far the highest poverty rate of any group, in any nation, at any time (see Table 2). Even our elderly - for whom we have made great strides in alleviating poverty in the 1970s and 1980s - had poverty rates far above those in other nations. In fact, the only country with double digit poverty rates for any group in the mid to late 1980s was the U.S.A. All other nations studied did a better job of fighting poverty then we did.

Our second table looks at changes in poverty in these same nations over time - from a year around 1979-1981 to a year around 1985-87. Despite their high level of poverty, the U.S. elderly did better than average in terms of change in poverty over the 1980s - other nations old did not improve as much as ours did. But, of course, other nations elderly all started, and stayed, at a level of poverty less than half of ours. Overall, and particularly for children, the U.S. had the sharpest increase in poverty among its citizens during the 1980s. This increase was far above the average increase in other nations studied. For instance, the LIS data show a 5.7 percent gain in child poverty over this period (the official U.S. poverty rates recorded a 4.1 percent jump). On average, other nations recorded a less than 1.0 percent gain in child poverty over this period. Canada, our closest neighbor, managed to reduce overall poverty by .5 percentage points and to reduce child poverty by .9 percentage points. Clearly the U.S. had by far the highest poverty rates and suffered the sharpest increases in poverty among the nations studied here during the 1980s. But why were our poverty rates so high? Was it because of poor economic conditions or because of the inadequacy of our income security safety net?

Effect of Income Security Policy on Poverty

The purpose of this hearing is to investigate what worked in reducing poverty in the U.S. and other nations in recent years. Tables 3 and 4 address this issue. The majority of the effect

TABLE 3

TRANSFER SYSTEM EFFECTIVENESS: THE IMPACT OF TAXES AND TRANSFERS ON POVERTY IN SEVERAL NATIONS IN THE MID 1980S

	US86	CN87	AS85	SW87	GE84	NL87	FR84	UK86	Average
All People									
Pre (Tax and Transfer Income)[a]	19.9	17.1	19.1	25.9	21.6	21.5	26.4	27.7	22.4
Post (Tax and Transfer Income)[b]	13.3	7.0	6.7	4.3	2.8	3.4	4.5	5.2	5.9
change	-6.6	-10.1	-12.4	-21.6	-18.8	-18.1	-21.9	-22.5	-16.5
Aged 65 or Older									
Pre	46.5	50.2	54.5	83.2	80.1	56.1	76.2	62.1	63.6
Post	10.9	2.2	4.0	0.7	3.8	0.0	0.7	1.0	2.9
change	-35.6	-48.0	-50.5	-82.5	-76.3	-56.1	-75.5	-61.1	-60.7
Adults (18-64)									
Pre	12.8	11.5	12.9	13.4	9.8	17.4	17.6	18.1	14.2
Post	10.5	7.0	6.1	6.6	2.6	3.9	5.2	5.3	5.9
change	-2.3	-4.5	-6.8	-6.8	-7.2	-13.5	-12.4	-12.8	-8.3
Children (17 or younger)									
Pre	22.3	15.7	16.4	7.9	8.4	14.1	21.1	27.9	16.7
Post	20.4	9.3	9.0	1.6	2.8	3.8	4.6	7.4	7.4
change	-1.9	-6.4	-7.4	-6.3	-5.6	-10.3	-16.5	-20.5	-9.4
children in single parent families									
Pre	58.1	56.6	70.2	23.2	46.0	70.3	43.1	71.2	54.8
Post	54.2	37.1	34.6	2.0	15.9	3.8	13.1	8.5	21.2
change	-3.9	-19.5	-35.6	-21.2	-30.1	-66.5	-30.0	-62.7	-33.7
other children									
Pre	15.7	11.7	11.3	5.2	6.9	9.2	19.4	22.2	12.7
Post	14.1	6.6	6.6	1.5	2.3	3.8	4.0	7.3	5.7
change	-1.6	-5.1	-4.7	-3.7	-4.6	-5.4	-15.4	-14.9	-6.9

[a]"Pre" tax and transfer poverty compares family income based on earnings, property income and private transfers (e.g., private pensions, alimony and child support) to the same 40 percent after tax and transfer income poverty line used in earlier tables.

[b]Post tax and transfer poverty includes the affect of direct taxes, including negative taxes such as the U.S. Earned Income Tax Credit, and public transfers on poverty. The "post" tax and transfer poverty rates are the same as those in Table 1.

TABLE 4

TRANSFER SYSTEM EFFECTIVENESS OVER TIME: IMPACT OF TAXES AND TRANSFERS ON POVERTY IN SEVERAL NATIONS IN THE MID-1980S[a]

	United States			Average of All Other Nations[c]			Average of Australia and Canada		
	1979	1986	Change	Wave 1	Wave 2	Change	Wave 1	Wave 2	Change
All People									
Pre (Tax and Transfer income)[a]	18.5	19.9	1.4	20.6	21.6	1.1	17.6	18.1	.5
Post (Tax and Transfer Income)[b]	10.8	13.3	2.5	5.7	6.0	0.3	6.9	6.9	0
Change	-7.7	-6.6		-14.8	-15.6		10.7	11.2	
All People 65+									
Pre (Tax and Transfer Income)	51.0	46.5	-4.5	63.9	63.8	0.0	56.4	52.4	-4.0
Post (Tax and Transfer Income)	12.9	10.9	-2.0	4.3	3.2	-1.1	3.8	3.1	-.7
Change	-38.1	-35.6		-59.6	-60.6		-52.6	-49.3	
All People 18-64									
Pre (Tax and Transfer Income)	11.2	12.8	1.6	12.6	13.6	1.0	11.5	12.2	.7
Post (Tax and Transfer Income)	8.3	10.5	2.2	5.6	6.0	0.4	6.0	6.6	.6
Change	-2.9	-2.3		-7.1	-7.6		-5.5	-5.6	
All Children									
Pre (Tax and Transfer Income)	19.0	22.3	3.3	13.7	15.1	1.4	15.7	16.1	.4
Post (Tax and Transfer Income)	14.7	20.4	5.7	6.5	7.4	0.8	9.4	9.2	.2
Change	-4.3	-1.9		-7.2	-7.8		-6.3	-6.9	

[a]"Pre: tax and transfer poverty compares family income based on earnings, property income and private transfers (e.g., private pensions, alimony and child support) to the same 40 percent after tax and transfer income poverty line used in earlier tables.

[b]"Post" tax and transfer poverty includes the affect of direct taxes, including negative taxes such as the U.S. Earned Income Tax Credit, and public transfers on poverty. The "post" tax and transfer poverty rates are the same as those in Table 1.

[c]Average of Canada, Australia, Sweden, Germany, Netherlands, and France.

of public income security policy - i.e. government tax and transfer policy - on poverty can be isolated by comparing the poverty rate before taxes and transfers to the rate after taxes and transfers using the same poverty line. This produces an estimate of the direct anti-poverty impact of policies aimed at reducing poverty. The after or "post" tax and transfer poverty rates are the same as those in Tables 1 and 2. We present figures for all people, for the three major age defined subgroups, and finally for children in single parent families - a group of increasing policy focus in all nations studied.

Poverty prior to taxes and transfers (so called "pre" tax and transfer poverty) almost entirely depends on the status of the market economy. Only levels of earnings and other market income sources affect poverty prior to taxes and transfers. In fact, the U.S. pre tax and transfer poverty rates are much closer to the other nations than one might expect (see top line, Table 3). Our pre tax and transfer rate in 1986 was 19.9 percent, compared to a 22.4 percent rate in other nations. In fact, then our government programs take place in an environment which begins with below average market based poverty rates. The big difference between the U.S. and other nations is in the change in poverty produced by public income security policy in the form of tax and transfer programs (third line, Table 3). Here the U.S. system reduces poverty by only 6.6 percentage points as compared to a 16.5 percent average effect in other nations. In fact, the impact of U.S. policy on pre tax and transfer poverty was the least for every subgroup investigated. Among all children, for instance, the U.S. tax and transfer system reduced poverty by only 1.9 percentage points; among single parents the U.S. effect was to reduce child poverty by only 3.9 points. For other nations, these impacts averaged 9.4 and 29.5 points, respectively. Even in Canada - our closest neighbor - the effect of tax and transfer programs on poverty among

all children was to produce a 6.4 point decrease and among the children of single parents a 19.5 point decrease.

The 1980s produced higher market income based poverty rates in all countries (Table 4). Apparently the long period of sustained economic growth in the 1980s did not affect the growing inequality in wage income or the concentrated effect of long term unemployment on low income households (Blank, 1991). In the U.S., pre tax and transfer poverty rose by 1.4 points for 1979 to 1986. In other nations, the increase averaged 1.1 points; in Australia and Canada, .5 points. However, in all nations but the USA, the change in post tax and transfer poverty was less than the change in pre tax and transfer poverty rates. In other words, in other nations, the effect of the tax and transfer system on poverty increased while in the U.S. the income security system's impact on poverty decreased. This was true for all sub-groups of the U.S. poor. Again, the U.S. did least well for poor children. Our pre tax and transfer child poverty rate rose by 3.3 points but our post tax and transfer rate rose by 5.7 points. In the other countries the poverty increases were much more muted. Canada and Australia managed to decrease child poverty during the 1980s.

Summary. These numbers present a very negative picture of the U.S. tax and transfer system compared to that of other nations. The findings here corroborate evidence that we first presented for children in the early 1980s in one of the world's leading scientific journals, Science (Smeeding and Torrey, 1988). They reinforce our early 1980s evidence for other population groups as well (Smeeding, Torrey, Rein, 1988). In fact the most recent estimates are even less optimistic than those in our earlier publications. They also corroborate the recent evidence on U.S. - Canada comparisons during the 1980s presented by Rebecca Blank and her associate

(Blank and Hanratty, 1991).

Simply put, U.S. families with low market incomes seem to work as hard as do the families in other nations, as measured by our close to average pre tax and transfer poverty rates (see also Smeeding and Rainwater, 1991). Others have shown that the U.S. poor are less likely to be long term dependent on welfare than are the poor in other nations (Duncan, et. al. 1991). But our anti-poverty system doesn't work as well as do the systems in other nations. Moreover our system worked less well during the 1980's, while other systems continued to prevent high poverty rates, even in the face of increased pressure from worsening unemployment rates and other market income related changes which drove up pre tax and transfer poverty in their countries. The major question is why do others do better than we do? What programs do they rely on which are absent in the U.S.?

II. A Comparison of Income Security Programs

The simple answer to why others nations do better than we do is that they put more effort into it: they expend more than we do, and they target it better than we do. That is, the tax and transfer systems in other modern nations are, in general, better suited to fighting poverty and to promoting economic independence than is the U.S. system. The purpose of this section is to review some of the factors which produce better outcomes for otherwise poor people in other nations.

Elderly. The growth in OASI benefits in the USA during the 1970s and 1980s has surely helped reduce poverty among the U.S. elderly. However, the U.S. old age security system is such that there is no effective public pension floor at 40 percent of median income or higher.

The Supplemental Security Income (SSI) program, even including food stamps, has a Federal government floor which is only about 35-38 percent of the U.S. median. In other nations, the minimum standard public pension is 48-50 percent of median income or higher. In most nations, the minimum is set in the national social retirement (OASI) system. In others, there are special income-tested benefits to gross up the standard amount to some minimum level (Office of Economic Cooperation and Development, 1988). For instance, in Canada and Australia, minimum income programs for the elderly are set at 52-56 percent of adjusted median income (Coder, Smeeding, Torrey, 1990). Among the elderly then, the solution is either to raise the SSI floor or to have a special minimum benefit build into the Social Security program per se. Because the largest single poverty group are elderly women living alone, a special widows benefit might do the trick. For instance, Canada has combined special widows benefits with a reasonable income-tested benefit floor for all aged people. Their income-tested program has no assets or wealth test either. The Canadians allow their elderly to hold onto their assets, but then when the elderly no longer need their assets, they levy a national inheritance tax. Perhaps the U.S. should consider such an approach.

Children and their Parents. Most of the adult poverty problem in the U.S. is related to families with children, including single parents, so we discuss these two together. The U.S. is unique in that it (and Japan) are the only two modern nations which do not have some form of a universal child allowance. In some nations, e.g. Canada, these allowances are paid via refundable income tax credits. In other nations they are paid via the transfer system in the form of family allowances. In all nations, except for the USA, they are independent of work effort. They are given to parents on behalf of children as a universal right of citizenship. If we were

to convert the U.S. personal tax exemption for children to an equivalent cost refundable tax credit - about $800 - we would achieve the same floor under all children's incomes that other nations have.

Over and above child allowances, other nations have a set of interrelated programs to help families with children escape poverty. For two-parent families, other nations have more generous unemployment compensation systems that, after some period of extended benefits, are tied to a job-training program. The objective is to help workers in failing industries renew their skills and replace their earnings losses from plant closures with new jobs at decent wages.

For single parents, two additional policies are worth noting. First, there is a system of guaranteed child support (or advance maintenance payments) wherein the state provides insurance against the failure of child support payments by the absent spouse. This system is available in Netherlands, Germany, Sweden and several other nations. It protects against unemployment and/or low wage absent spouses. The second policy is one of providing extensive low cost child care for single parents who want to work. France and Sweden encourage single mothers to work via free or low cost child care, via job protection in the form of parental leave, and via related policies to provide single parents with job training and part-time jobs that allow them to mix work and parenting (Garfinkel and McLanahan, 1991). In Sweden and France single mothers are much more likely to work than in the U.S., Canada or the United Kingdom (Kamerman, 1991).

The lessons to be learned here are that other nations have multifaceted and proactive policies which help reduce poverty among all age groups. They do not rely almost entirely on means - tested benefits, as does the US via the Food Stamps, AFDC and SSI programs. Other

nations also have universal programs that pay child allowances, allow parental leave with pay, guarantee child support, and provide high minimum benefits for the elderly and the permanently disabled.

It goes without saying, of course, that all of these countries also have universal tax financed health insurance systems which cover all citizens - rich or poor. There are no poor children who go without Medicaid; there are no poor parents on welfare who fear that taking a job will mean the loss of Medicaid benefits for their families; and there are no long term unemployed who face either loss of job related health insurance benefits or a high cost premium to keep their job related health benefits.

III. Lessons for the U.S.

Other countries do better than the U.S., but beyond universal health insurance and universal child allowances, each country has its own unique policy mix which fits its own circumstances and national needs. We must also design our own system of anti-poverty support. My guess is that we'd want a system that encourages self reliance rather than reliance on public income transfer programs alone. We'd like a program, or set of programs, which safeguard incentives to work and to become economically independent. We'd like a system that builds on parental responsibility and not one that ignores it.

Based on my studies of other nations, and on my experiences with the U.S. system. I would recommend that the U.S. seriously consider the following measures:

1. Institute a universal refundable child income tax credit of $800-1,000 per child for every child for whom the custodial parent has produced a child support order. This forces unmarried single mothers to identify the father so that child support enforcement can be pursued. In conjunction with the current EITC, this policy should move most if not all

working poor families with children off of the poverty rolls.

2. Begin a system of guaranteed child support for all single mothers with a child support order for their children, thus guaranteeing a minimal level of child support for all children in single parent families where the father has been identified.

3. Move at least to a year long "Head Start" style child development/child care system for all low income families with children. Such a system would guarantee at least a year of developmentally oriented pre-school for all poor children. Coupled with the opportunity for providing preventive health care (immunizations, lead based paint exposure checks, other preventive measures) this program would target all low income four or five year olds so that at age five or six, every child was ready to begin formal schooling in good health and with adequate developmental preparation.

4. Provide extended unemployment benefits but then connect them to targeted re-employment and training efforts for unemployed parents. Clearly a good job is the main road to economic independence and to family stability. Job losers should be retrained for new jobs. Our efforts should be targeted towards those who have the most to lose from economic change and de-industrialization, needy parents with children.

5. Raise the minimum SSI benefit to the poverty line and ease the assets or wealth test for the elderly and disabled. If economic independence cannot be achieved due to personal limitations, compassion should lead us to a minimum decent standard of living for the aged and the disabled.

6. Once these systems are in place, provide a two or three year limit to the AFDC program as suggested by Ellwood (1988). Once the youngest child is three, the single parent should, with the other help provided by the system outlined above, be ready, willing and able to move toward self-support. The other building blocks suggested above will then provide the necessary help to achieve self-sufficiency.

In summary, where the fiscal will and leadership exist, nations are able to effectively fight poverty. Every other nation studied outperforms the U.S. in this arena. We need to begin to make poverty a priority in this country, starting especially with poor children, where we tolerate a level of disadvantage unknown to any other major advanced country on earth.

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